

Twitter Thread by Brian Withers



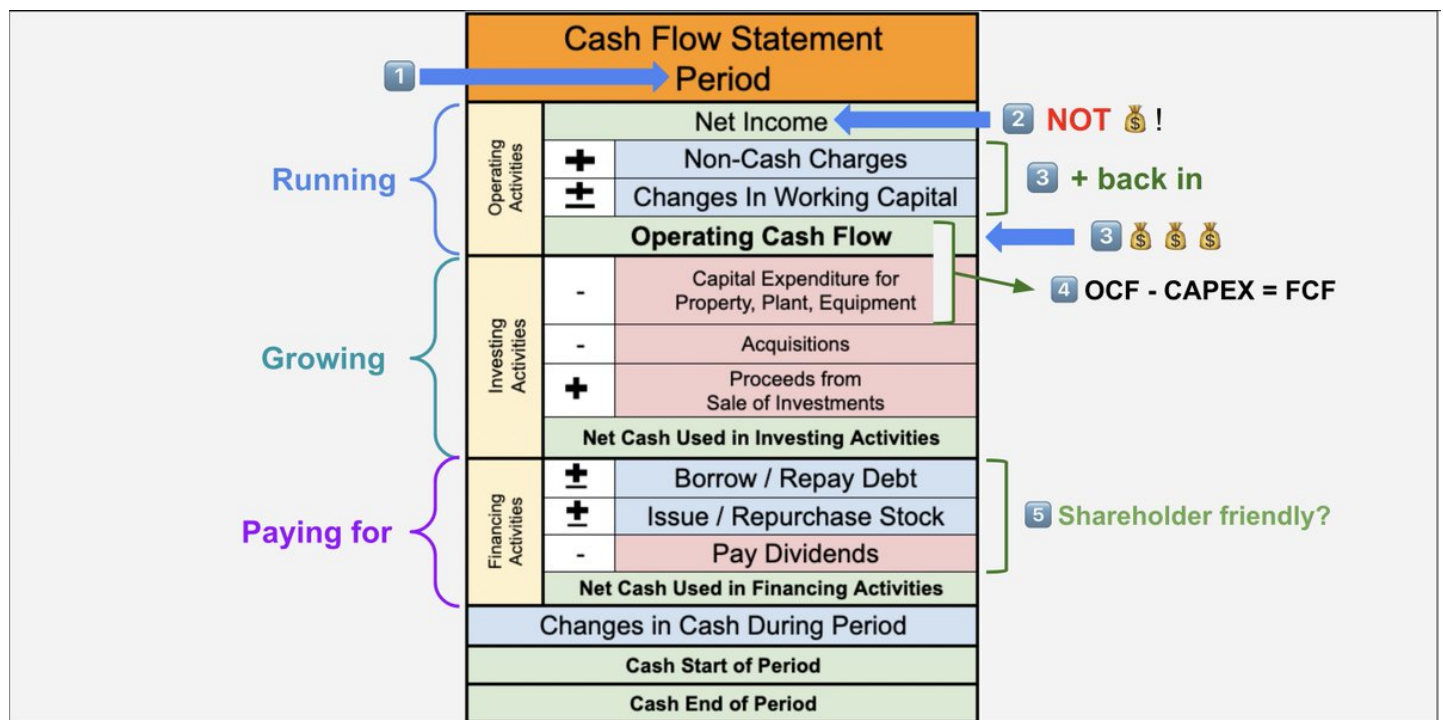
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Amateurs focus on Profits.

Professionals focus on Cash Flow.

Cash Flow Statement 101: ■



The cash flow statement shows cash moving in and out of a company over specific time periods.

Since it's Jan right now, the two most common will be:

- 3 Quarters
- 1 Year

Below, we can see CrowdStrike's cash flow over the past 9 months. The time frame is at the top \$CRWD

		Nine Months Ended October 31,	
		2022	2021
Operating activities			
Net loss	\$	(133,353)	\$ (190,639)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization		53,622	39,506
Amortization of intangible assets		12,338	9,072
Amortization of deferred contract acquisition costs		121,550	79,712
Non-cash operating lease costs		6,818	6,727
Stock-based compensation expense		374,157	217,315
Deferred income taxes		2,286	(1,338)
Non-cash interest expense		2,077	1,824
Change in fair value of strategic investments		(4,757)	(4,356)
Changes in operating assets and liabilities, net of impact of acquisitions			
Accounts receivable, net		(117,240)	(40,644)
Deferred contract acquisition costs		(183,265)	(151,901)
Prepaid expenses and other assets		(14,121)	(8,051)
Accounts payable		25,007	(7,033)
Accrued expenses and other liabilities		21,820	74,426
Accrued payroll and benefits		21,635	22,258
Operating lease liabilities		(7,037)	(7,394)
Deferred revenue		486,177	375,582
Net cash provided by operating activities		667,714	415,066
Investing activities			
Purchases of property and equipment		(179,609)	(85,420)
Capitalized internal-use software and website development		(20,739)	(15,201)

There are three key parts to a cash flow statement:

- 1 ■ Operating Activities (Running the business)
- 2 ■ Investing Activities (Investing in the business)
- 3 ■ Financing Activities (Paying for the business)

There's freedom in how it gets reported, but this is the basic structure

1 →	Operating Activities		Net Income
		+	Non-cash charges
		±	Changes in working capital
			Operating Cash Flow
2 →	Investing Activities	-	Capital Expenditure for property, plant, equipment
		-	Acquisitions
		+	Proceeds from sale of investments
			Net cash used in investing activities
3 →	Financing Activities	±	Borrow / repay debt
		±	Issue / repurchase stock
		-	Pay dividends
			Net cash used in financing activities
		±	Changes in cash during period
			Cash start of period
			Cash end of period


Let's specifically look at operating activities

The top line-item is NET INCOME.

You'd think this would represent the money a company puts in the bank at the end of the year.

But that's NOT THE CASE

Income Statement	
Revenue	% of Revenue
- Cost of Goods Sold	
Gross Profit	Gross Profit / Revenue = Gross Profit Margin
- Operating Expenses	
Operating Income	Operating Income / Revenue = Operating Margin
- Interest Expense	
Pre-Tax Income	
- Income Tax	
Net Income	Net Income / Revenue = Net Margin



Cash Flow Statement	
Operating Activities	Net Income
	Non-cash charges
	Changes in working capital
	Operating Cash Flow
Investing Activities	- Capital Expenditure for property, plant, equipment
	- Acquisitions
	+ Proceeds from sale of investments
	Net cash used in investing activities
Financing Activities	+ Borrow / repay debt
	+ Issue / repurchase stock
	- Pay dividends
	Net cash used in financing activities
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From bottom of Income Statement
Depreciation, Amortization, Stock-based Compensation
Accounts Receivable / Accounts Payable / Inventory

O.C.F. - CapEx = Free Cash Flow!

Net Income backs out NON-CASH charges. The cash flow statement adds them back in.

Including:

- Depreciation: Value of asset decreasing
- Amortization: Expensing pre-paid cost
- Stock-Based Compensation: Paying employees w/ equity

Operating Activities

Operating Activities	Net Income	
	+	Non-cash charges
	±	Changes in working capital
	Operating Cash Flow	



Next, working capital leads to cash being added or subtracted.

This covers:

- Accounts Receivable: Sales not yet collected
- Accounts Payable: Bills not yet paid
- Inventory: Value of "stuff" not yet sold

Operating Activities

Operating Activities	Net Income	
	+	Non-cash charges
	±	Changes in working capital
	Operating Cash Flow	



When all of those things are accounted for, you get OPERATING CASH FLOW.

The easiest way of thinking about it: this is a company's REAL net income -- on a cash (and not accrual) basis.

Operating Activities

Operating Activities		Net Income
	+	Non-cash charges
	±	Changes in working capital
		Operating Cash Flow



The next section is investing activities.

The first line item is very important:

CAPITAL EXPENDITURES

- Cash spent to acquire or maintain property, plant, buildings, or equipment.
- Cash spent to develop internally-used software

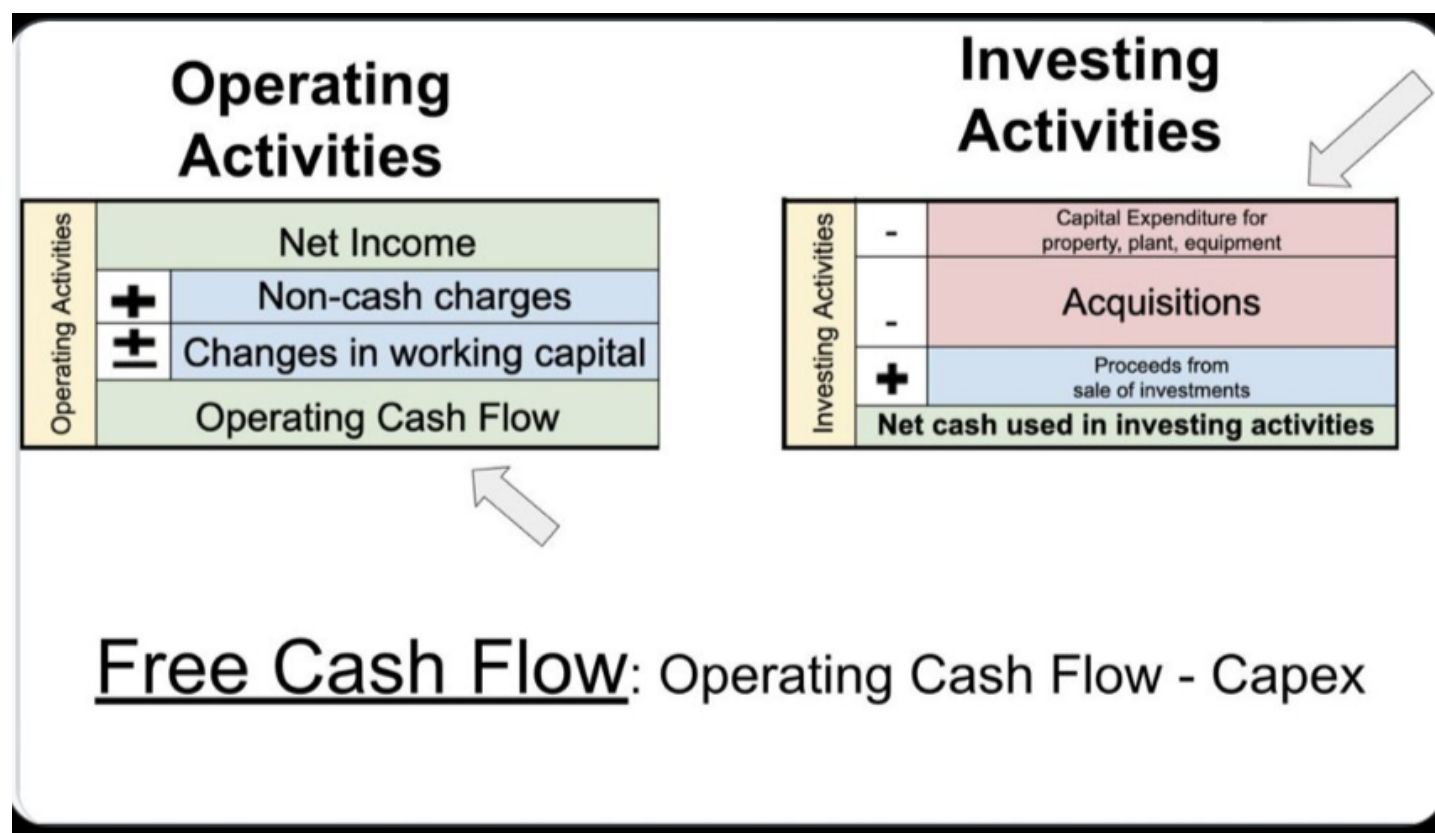
2 →

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With these figures, we can now calculate FREE CASH FLOW.

This is the money a company generates from business after paying for capital expenditures.

This is one of the most important financial metrics in my investing framework



Why?

FCF tells a very different story than NET INCOME

Consider \$CRWD

■ Net LOSSES in the first 9 months of the past two years have been over \$300 million

■ That seems pretty bad

	Nine Months Ended October 31,	
	2022	2021
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But there are two HUGE caveats:

1 ■ ~\$590 million in stock-based compensation (SBC).

2 ■ ~\$860 million in deferred revenue.

The latter represents fees \$CRWD has already collected for service in the future. It's in the bank.

(Note: SBC *does* dilute shareholders)

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Incredibly, when you do the math, \$CRWD produced:

■\$415 million in Operating Cash Flow in the 2021 time period

■\$668 million in Operating Cash Flow in the 2022 time period

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To find Free Cash Flow, we subtract out Capital Expenditures.

When we do, \$CRWD Free Cash Flow numbers are:

■\$315 million in the first 9 months of 2021

■\$467 million in the first 9 months of 2022

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Think about that.

■ While it's true that \$CRWD Net Income LOSSES were over \$300M

■ It's also true that \$CRWD Free Cash Flow GAINS were nearly \$800M

Knowing that is vitally important with stocks tanking and sources of funding drying up. The company can self-fund if it wants!

Was this helpful?

@BrianFeroldi , @Brian_Stoffel , and I run a live course that gives you the tools to understand financial statements with easy-to-understand examples.

Registration is only open for a few more days ➡ ■ <https://t.co/9j51s8E9oV>

DM me for a coupon code.

@BrianFeroldi @Brian_Stoffel Here's another thread you might be interested in: <https://t.co/TQmClP23L>

How to analyze a:

\u25aa\u25aa Balance Sheet

\u25aa\u25aa Income Statement

\u25aa\u25aa Cash Flow Statement

In less than 5 minutes: <pic.twitter.com/JseZux2yFJ>

— Brian Withers (@StocksWithBrian) December 27, 2022